Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1998 Biennial Regulatory Review --	)	CC Docket No. 98-137
Review of Depreciation Requirements	)	
For Incumbent Local Exchange Carriers	)	
	)	
USTA's Petition for	)	ASD 98-91
Forbearance from Depreciation Regulation	)	
Of Price Cap Local Exchange Carriers	)	

REPLY COMMENTS OF AMERITECH

I. INTRODUCTION AND SUMMARY.

Ameritech[1] hereby replies to the comments filed in this proceeding.[2] This docket presents the Commission with the opportunity to eliminate a remnant of rate of return regulation for price cap carriers and take a positive and concrete step towards the realization of a competitive and deregulatory national policy framework envisioned in the Telecommunications Act of 1996 (the "Act").

The Commission should grant the USTA petition for forbearance effective January 1, 1999 and give carriers the option on salvage and cost of removal treatment. As Ameritech and other commenters have shown, the only safeguard needed concerning ILEC depreciation is that

---

[1] Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

[2] *See, In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 98-137, Notice of Proposed Rulemaking, released October 14, 1998, ("Depreciation NPRM"). *See also*, Petition for Forbearance of the United States Telephone Association filed September 21, 1998, ("USTA Petition"). *See also*, Modification of Pleading Cycle for United States Telephone Association's Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers, ASD 98-91, released October 16, 1998.

carriers use depreciation lives which are consistent with those used for external reporting purposes under Generally Accepted Accounting Principles ("GAAP").

ILECs under price cap regulation support USTA's petition for forbearance of depreciation regulation. Several ILEC competitors oppose any substantive regulatory relief for the reasons that such relief would impact rates, as articulated in this proceeding's Notice of Proposed Rulemaking ("NPRM"). Two state commissions are hesitant to endorse any relief. Nevertheless, the record in this proceeding shows that forbearance from regulation of depreciation practices of price cap carriers is both justified and timely, principally because price cap carriers are no longer subject to an earnings sharing provision. As a result, there is no practical impact on rates to justify continued regulation. Further, none of the instances described in the NPRM justifies the continued regulation of depreciation.

In lieu of forbearance, carriers proposed several alternatives, including an evaluation and lowering of ranges for all accounts, and the replacement of the use of projection lives with remaining life ranges. These alternatives have merit, particularly with respect to the shortening the life ranges, and are preferable to the inadequate proposals contained in the NPRM. However, the diversity of proposals reflects a grasping for some meaningful streamlining given the insufficient NPRM proposals and the pointlessness of continued regulation of depreciation of price cap carriers. Clearly, the proper course of action for the Commission to take is forbearance.

ILECs should be given the option on salvage and cost of removal treatment in light of the current review underway by the Financial Accounting Standards Board ("FASB") with the issuance of the exposure draft in February, 1996, "Accounting for Certain Liabilities Related to

Closure of Removal of Long-Lived Assets". This will allow ILECs to align the regulatory treatment with GAAP treatment.

II. DEPRECIATION REGULATION IS THE QUINTESSENTIAL CANDIDATE FOR FORBEARANCE.

The record shows that regulation of depreciation practices is the quintessential candidate for the repeal of regulation under Section 11 and forbearance under Section 10 of the Act, because under no-sharing price cap regulation, changes in depreciation have no impact on rates and because the Commission is required under Section 11 of the Act to review regulations biennially and repeal or modify those regulations no longer necessary in the public interest. USTA and other ILEC commenters have shown that the conditions for both forbearance under Section 10 and repeal under Section 11 have been met. None of the concerns described in the NPRM pertaining to price caps, universal service, and interconnection justify the continued regulation of depreciation for price cap ILECs.[3]

III. COMMENTERS OPPOSING FORBEARANCE PROVIDE, AT BEST, TENUOUS AND INSUFFICIENT JUSTIFICATIONS FOR CONTINUED REGULATION.

Commenters opposing forbearance and supporting the tentative conclusions of the NPRM for the continued regulation of ILEC depreciation merely restate the NPRM's justifications, which are, at best, a tenuous and insufficient basis for continued regulation. MCI and AT&T maintain that regulation is necessary because (i) at the current level of competition, regulation ensures just and reasonable rates (ii) GAAP is insufficient because of conservatism which does not protect ratepayers (iii) under price caps, regulation is necessary because of the lower formula

[3] *See*, Comments of the United States Telephone Association and Affidavit of William E. Taylor (the "Taylor Affidavit") and Affidavit of Frank M. Gollop (the "Gollop Affidavit"). *See also*, Comments of SBC, Bell Atlantic, BellSouth, and GTE.

adjustment mark ("LFAM"), (iv) the need to monitor earnings and assessment of the productivity factor (v) universal service and (vi) state reliance on federal regulation.[4] None of these or other concerns justifies the continued regulation of depreciation.

With respect to the current level of competition, commenters showed that the competitive structure of the telecommunications industry has changed markedly, rendering depreciation regulation unnecessary. Establishing any undefined market share test would unnecessarily defer any real depreciation reform indefinitely.[5] In any event, apart from any considerations on competition, regulation of depreciation practices for price cap carriers is unnecessary to ensure just and reasonable rates.

Regarding the sufficiency of GAAP to protect ratepayers, the Arthur Andersen LLP papers on accounting simplification have shown that GAAP collectively, and not the conservatism principle alone, serves all users of financial statements including ratepayers. Moreover, GAAP guards against material overstatements as well as understatements in the financial statements.[6]

Regarding price caps, specifically the LFAM and the productivity factor, both MCI and AT&T maintain that the fact LFAM has rarely been triggered does not mean that regulation is unnecessary. Rather, it may be suggestive that the productivity factor is too low.[7] The Gollop

---

[4] *See,* Comments of MCI at 4-8. See Comments of AT&T at 10-20. *See also,* Comments of Ad Hoc at 5, General Services Administration at 3, Comments of the Commonwealth of Virginia State Corporation Commission at 5, and Comments of State of Florida Public Service Commission at 8.

[5] *See,* Taylor Affidavit at 6-12. See also Comments of SBC at Exhibit A, Statement on FCC Depreciation Requirements by Dr. Robert G. Harris.

[6] *See,* Arthur Andersen LLP Supplement to July 15, 1998 Position Paper "Accounting Simplification in the Telecommunications Industry", Carl R. Geppert, November 10, 1998 at pages 11-13.

[7] *See,* Comments of MCI at 5. *See,* Comments of AT&T at 16.

Affidavit demonstrates that the productivity factor using the FCC model is unaffected by changes in depreciation rates rendering the merits of forbearance independent of any concerns over impacts on the productivity factor.[8] Also, as Ameritech stated in its comments, the elimination of LFAM must be considered as part of a total reliance on market-based pricing and forbearance of depreciation cannot be conditioned on this singular condition.[9]

With respect to impacts on universal service and the concerns on inflating subsidies and contributions through excessive depreciation rates, reliance on economic depreciation lives consistent with GAAP is more reflective of current market conditions and technological change. Put simply, the use of economic lives is more accurate than the current reliance on mortality-based lives prescribed by the Commission. As USTA points out, the Commission appears to recognize this in principle, but does not allow for its actual implementation because it adheres to authorized and prescribed mortality-based ranges.[10] Achieving accuracy through the use of economic depreciation lives should be the overarching principle. Forbearance of depreciation regulation provides the mechanism to put this principle into practice.

Assertions of the continued need for Commission regulation because of state reliance on such regulation are misplaced. First, both MCI and AT&T fail to differentiate between companies subject to rate-of-return regulation for which there may continue to be a need for depreciation regulation. Forbearance of depreciation regulation for price cap companies in no way compromises those states authority or ability to prescribe depreciation rates and/or rely on

---

[8] *See*, Gollop Affidavit.

[9] *See*, Ameritech Comments at 7.

[10] *See*, Taylor Affidavit at 17-19.

FCC prescriptions for carriers subject to rate of return regulation.[11] Second, pricing for interconnection and unbundled network elements is under state jurisdiction. Again, use of economic lives consistent with GAAP does not compromise or undermine the states' authority in that regard.

Additionally, contrary to the NPRM and the comments of MCI and AT&T, the Commission's prescribed lives are not forward-looking and there is not a reserve surplus.[12] The NPRM proposes a change in life ranges for only 1 of 34 accounts, and this change is based on a mortality analysis of retirement data, not a forward-looking evaluation.[13] As the Harris Affidavit shows, a simple comparison between Commission prescribed lives and economic lives used by AT&T and other ILEC competitors shows the upper range prescribed by the Commission to be almost double those lives used by AT&T and other ILEC competitors.[14] If, indeed, the Commission's lives are forward-looking economic lives, why are the lives used by AT&T half those prescribed by the Commission? The Commission has had no commitment to the use of forward-looking economic lives, as an empirical evaluation of the facts demonstrates.

It is a meaningless exercise to assert that there is a reserve surplus, when that determination is made comparing the book reserve to the theoretical reserve using Commission defined parameters. Any determination of the adequacy of depreciation lives as manifested in the level of the reserve must be made on the basis of a comparison of the reserve using Commission prescribed parameters and economic lives consistent with GAAP. Arthur Andersen showed that

---

[11] *See*, Comments of SBC at 13.

[12] *See*, Comments of MCI at 11 and 22. *See*, Comments of AT&T at 6 and 24.

[13] *See*, Comments of SBC at 16-23.

[14] *See*, Harris Affidavit at 15.

this comparison results in a reserve deficiency of approximately $ 34 billion for the RBOCs and GTE.[15]

In short, neither the justifications in the NPRM or commenters' support of the NPRM withstand scrutiny for the continued regulation of depreciation practices of price cap companies. Commenters supporting the proposals of the NPRM transparently expose their interest in continuing to hamstring price cap carriers with needless and costly regulatory practices.

IV. PROPOSED ALTERNATIVES TO FORBEARANCE DEMONSTRATE THE NEED FOR MEANINGFUL STREAMLINING AND THE FUTILITY OF CONTINUED REGULATION.

Notwithstanding the ILECs unanimous support for forbearance of depreciation regulation, alternatives were proposed including (i) the lowering of ranges for all accounts, (ii) relieving price cap carriers from predefined life ranges and adoption of the 1992 price cap option (whereby a carrier would only be required to file its existing and proposed depreciation rates and change in expense), (iii) use of the lives used by ILEC competitors, and (iv) the replacement of the use of projection lives with remaining life ranges.[16] While all of these alternatives to forbearance have merit because each goes beyond the inadequate proposals contained in the NPRM, the proper action for the Commission to take at this time is to forbear from regulation in its entirety. If forbearance is declined, price cap carriers should be relieved from Commission prescribed ranges. If Commission oversight is deemed necessary for an interim period, adoption

[15] *See,* supra footnote 6 at Page 17 and Attachment 4.

[16] *See*, Comments of SBC at 16-25, Comments of Sprint at 5, Comments of GTE at 15.

of the 1992 price cap option as proposed by SBC should be adopted. At a bare minimum, the life ranges for all accounts need to reflect forward-looking factors.[17]

V. PRICE CAP CARRIES SHOULD BE GIVEN THE OPTION ON SALVAGE AND COST OF REMOVAL TREATMENT.

Commenters supporting the proposals in the NPRM agree with the Commission mandating that salvage and cost of removal be treated as expenses in the year incurred.[18] Further, MCI proposes that this accounting change should result in the prescription of new depreciation rates effective January 1, 1999 to reflect the elimination of the salvage and cost of removal factor from rates.

Most commenters recognize that in light of the current review underway by the Financial Accounting Standards Board ("FASB") with the issuance of the exposure draft in February, 1996, "Accounting for Certain Liabilities Related to Closure of Removal of Long-Lived Assets", carriers should be given the option on salvage and cost of removal treatment.[19] This will allow carriers the flexibility to align the regulatory treatment with any final pronouncement by the FASB on the GAAP accounting requirements. It is ill-advised and untimely to mandate any change to salvage and cost of removal treatment.

---

[17] *See*, Comments of Ameritech at 10, Comments of SBC at 22, Comments of BellSouth at 12.

[18] *See*, Comments of AT&T at 6-8, Comments of MCI at 12-14, General Services Administration at 7-9, Commonwealth of Virginia State Corporation Commission at 4.

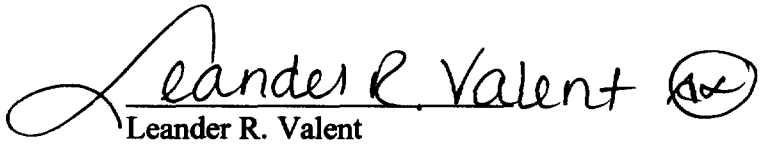
[19] *See*, Comments of State of Florida Public Service Commission at 7, SBC at 27, BellSouth at 13, GTE at 18.

VI. CONCLUSION.

The Commission should grant the USTA petition for forbearance effective January 1, 1999 and give carriers the option on salvage and cost of removal treatment pending any final pronouncement by the FASB on GAAP accounting requirements. Forbearance of depreciation regulation meets the conditions for repeal under Section 11 and forbearance under Section 10 of the Act. Commenters opposing forbearance have shown, at best, only tenuous justifications which are insufficient for continued regulation.

If forbearance is not granted, price cap carriers should not be bound by Commission prescribed ranges. Rather, price cap carriers should only be required to file existing and proposed depreciation rates and changes in depreciation expense subject only to the condition that lives are consistent with those used for external reporting purposes under GAAP. At a bare minimum, the life ranges for all accounts need to reflect forward-looking factors.

Respectfully submitted,



Leander R. Valent
Counsel for Ameritech
9525 West Bryn Mawr, Suite 600
Rosemont, IL 60018
(847) 928-4396

Dated: December 8, 1998

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Reply Comments of Ameritech has been served on all parties listed on the attached service list, via first class mail, postage prepaid, on this 8th day of December, 1998.

By: Todd H. Bond

Todd H. Bond

LAWRENCE E SARJEANT
LINDA L KENT
KEITH TOWNSEND
JOHN W HUNTER
UNITED STATES TELEPHONE ASSOCIATION
1401 H STREET NW SUITE 600
WASHINGTON DC 20005

WILLIAM IRBY
DIRECTOR
DIVISION OF COMMUNICATIONS
VIRGINIA STATE CORPORATION COMMISSION
BOX 1197
1300 EAST MAIN STREET 9TH FLOOR
RICHMOND VA 23218

EMILY C HEWITT
GENERAL COUNSEL
GEORGE N BARCLAY
ASSOC GENERAL COUNSEL
GENERAL SERVICES ADMINISTRATION
1800 F STREET NW ROOM 4002
WASHINGTON DC 20405

MARK C ROSENBLUM
J MANNING LEE
ATTORNEYS FOR
AT&T CORP
ROOM 3245H1
295 NORTH MAPLE AVE
BASKING RIDGE NJ 07920

ROBERT D SHANK
ATTORNEY FOR
CINCINNATI BELL TELEPHONE COMPANY
2500 PNC CENTER
201 EAST FIFTH STREET
CINCINNATI OH 45202

THOMAS E TAYLOR
SR VICE PRESIDENT GENERAL COUNSEL
CINCINNATI BELL TELEPHONE COMPANY
201 EAST FIFTH STREET 6TH FLOOR
CINCINNATI OH 45202

JOHN F RAPOSA
GTE SERVICE CORPORATION
600 HIDDEN RIDGE HQE 03J27
P O BOX 152092
IRVING TX 75015-2092

ANDRE J LACHANCE
GTE SERVICE CORPORATION
1850 M STREET NW
WASHINGTON DC 20036

ROBERT M LYNCH DURWARD D DUPRE
ROGER K TOPPINS DARRYL W HOWARD
JONATHAN W ROYSTON
SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL
ONE BELL PLAZA ROOM 3022
DALLAS TX 75202

JAY C KEITHLEY
ATTORNEY FOR
SPRINT CORPORATION
1850 M STREET NW 11TH FLOOR
WASHINGTON DC 20036-5807

SANDRA K WILLIAMS
ATTORNEY FOR
SPRINT CORPORATION
SUITE 303A
4220 SHAWNEE MISSION PARKWAY
WESTWOOD KS 66205

JAMES S BLASZAK
COUNSEL FOR
THE AD HOC TELECOMMUNICATIONS USERS
COMMITTEE
SUITE 900
2001 L STREET NW
WASHINGTON DC 20036

PATRICIA M KRAVTIN
THE AD HOC TELECOMMUNICATIONS USERS
COMMITTEE
ECONOMICS AND TECHNOLOGY INC
ONE WASHINGTON MALL
BOSTON MA 02108-2617

ALAN BUZACOTT
MCI WORLDCOM INC
1801 PENNSYLVANIA AVE NW
WASHINGTON DC 20006

CYNTHIA B MILLER
SENIOR ATTORNEY
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE FL 32399

EDWARD SHAKIN
ATTORNEY FOR
THE BELL ATLANTIC TELEPHONE COMPANIES
EIGHTH FLOOR
1320 NORTH COURT HOUSE ROAD
ARLINGTON VA 22201

M ROBERT SUTHERLAND
STEPHEN L EARNEST
BELLSOUTH CORPORATION AND
BELLSOUTH TELECOMMUNICATIONS INC
SUITE 1700
1155 PEACHTREE STREET NE
ATLANTA GA 30309-3610